

## Terms of Reference for Annual Audit of Project

### Introduction

The Palestine Red Crescent Society Lebanon Branch, hereafter referred to as **PRCS-L**, wishes to engage the services of an audit firm for the purpose of auditing the project **Strengthened capacities for healthier, self-reliant and resilient Palestinian communities** implemented by the **PRCS-L** and funded by Swedish Red Cross, hereafter referred to as SRC. The audit shall be carried out in accordance with international audit standards (ISA) issued by IAASB<sup>1</sup>. In addition, an assignment according to International Standards on Related Services (ISRS) 4400 shall be carried out. The audit and the additional assignment shall be carried out by an external, independent, and qualified auditor. To ensure international standards the auditor shall be a member of a national professional accountancy organization affiliated with IFAC<sup>2</sup>.

#### I. Objectives and scope of the audit

The objective is to audit the financial report for the period period **1-1-2023 to 31-12-2023** as prepared by the **PRCS-L**, and submitted to SRC and to express an audit opinion according to ISA, applying ISA 800/ISA 805, on whether the financial report is in accordance with the **PRCS-L**'s accounting records and SRCs requirements for financial reporting as stipulated in the agreement including appendices between SRC and the **PRCS-L**.

#### II. Additional assignment, according to agreed upon procedures ISRS 4400, review the following areas in accordance with the Terms of Reference below.

The International Auditing and Assurance Standards Board (IAASB)

1. Observe whether the financial report is structured in a way that allows for direct comparison with the latest approved budget<sup>3</sup>.
2. Observe and inspect whether the financial report provides information regarding:
  - a. Financial outcome per budget line (both incomes and costs) for the reporting period and columns for cumulative information regarding earlier periods under current agreement.
  - b. When applicable, compare if the opening fund balance<sup>4</sup> for the reporting period matches with what was stated as closing fund balance in the previous reporting period.
  - c. A disclosure of exchange gains/losses. Inquire and confirm whether the disclosure includes the entire chain of currency exchange from SRC's disbursement to the handling of the project within the **PRCS-L**, in local currency/ies, if applicable.
  - d. Explanatory notes (such as, for instance, accounting principles applied for the financial report).
  - e. Amount of funds that has been forwarded to a subsequent partner, when applicable.
- 3.

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<sup>1</sup> The International Auditing and Assurance Standards Board (IAASB)

<sup>2</sup> International Federations of Accountants (IFAC)

<sup>3</sup> The budget is attached to the agreement with implementing partner as an annex and any updates should be supported by a written approval by SRC.

<sup>4</sup> I.e. funds remaining from disbursements made during previous reporting period/s

- a. Inquire and inspect with what frequency salary costs during the reporting period are debited to the project. Choose a sample of three individuals for three different months and:
- b. Inquire and inspect whether there are supporting documentation<sup>5</sup> for debited salary costs.
- c. Inquire and inspect whether actual time worked is documented and verified by a manager. Inquire and inspect within which frequency reconciliations between debited time and actual worked time is performed.
- d. Inspect whether the Cooperation partner comply with applicable tax legislation with regard to personal income taxes (PAYE)<sup>6</sup> and social security fees.

4.

- a. Inspect and confirm that the unspent fund balance (according to the financial report) at the end of the financial year is in line with information provided in the accounting system and/or bank account.
- b. Applicable the final year: Inspect and confirm the unspent fund balance (including exchange gains) in the financial report and confirm the amount that shall be repaid to SRC.

**Follow up of funds that are channeled to subsequent implementing partners. <if relevant>**

Mandatory assignments that must be included if the **PRCS-L** forwards funds to a subsequent implementing partner:

- 2.1 Inspect and confirm whether the **PRCS-L** has signed agreements with the selected subsequent partners.
- 2.2 Inspect and confirm whether the **PRCS-L** in all agreements entered with subsequent implementing partners, has included all requirements stipulated in the agreement between the SRC and the **PRCS-L**.
- 2.3 Inquire and inspect whether the **PRCS-L** has received financial reports and reports from auditors from all subsequent implementing partners.
- 2.4 Inquire and inspect whether the **PRCS-L** has verified if reports from subsequent implementing partners are in line with the requirements in the Agreement.
- 2.5 Inquire and inspect whether the **PRCS-L** has documented its assessment of the submitted financial reports and reporting from auditors including management responses and action plans.
- 2.6 Inquire and inspect whether the **PRCS-L** has documented its follow-up actions based on the information provided in the financial reports and the reporting from the auditor.
- 2.7 Inquire and inspect whether the **PRCS-L** has reported substantial observations<sup>7</sup> from subsequent implementing partners audit reports in its communication with SRC. List observations<sup>8</sup> from subsequent implementing partners audit reports which have been part of this sample.

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<sup>5</sup> Debited salary costs should be verified by supporting documentation such as employment contracts.

<sup>6</sup> Pay As You Earn

<sup>7</sup> Deemed substantial by the implementing partner.

<sup>8</sup> Observations included in Management Letters and if applicable, qualified audit reports.

### **III. The reporting**

The reporting shall be signed by the responsible auditor (not just the audit firm<sup>9</sup>) and shall include the title of the responsible auditor.

#### ***Reporting from the ISA assignment***

The reporting from the auditor shall include an independent auditor's report in accordance with the format in standard ISA 800/805 and the auditor's opinion shall be clearly stated. The financial report that has been the subject of the audit shall be attached to the audit report.

The reporting shall also include a Management letter that discloses all audit findings, as well as weaknesses identified during the audit process. The auditor shall make recommendations to address the identified findings and weaknesses. The recommendations shall be presented in priority order and with a risk classification.

Measures taken by the **PRCS-L** to address weaknesses identified in previous audits shall also be presented in the Management Letter. If the previous audit did not have any findings or weaknesses to be followed-up on, a clarification of this must be disclosed in the audit reporting.

If the auditor assesses that no findings or weaknesses have been identified during the audit that would result in a Management Letter, an explanation of this assessment must be disclosed in the audit reporting.

#### ***Reporting from the ISRS 4400 assignment***

The additional assignment according to agreed upon procedures ISRS 4400 under section II, shall be reported separately in an "Agreed-upon procedures report".

Performed procedures should be described and the findings should be reported in accordance with the requirements in the International Standard on Related Services 4400.

When applicable, the sample size shall be stated in the report.

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<sup>9</sup> If the audit firm is obliged to sign, refer to relevant legislation. SRC still needs to know who has been responsible for the audit assignment.